

Technical Notes

NATIONAL SOCIETY FOR BUSINESS BUDGETING •

Alvin H. Weiss, Editor • 4400 W. National Ave. • Milwaukee 14, Wisconsin

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EDITOR'S NOTES

This issue begins the second year of the publication of Technical Notes as a medium for the expression of the modern concept of business budgeting. I am sure we are all aware of the fact that we are entering a new competitive era in which it may be more difficult to operate profitably; however, there is the promise that the free American enterprise system will be allowed to function with only a minimum amount of government restrictions. This fact presents a great opportunity for those business enterprises that can produce a better product or service at a lower cost to the consumer than its competitors.

We, as members of the National Society for Business Budgeting have a very important part to play in this period ahead, as I am convinced that the company that has a well-planned, modern, dynamic, budget system will have at least one strike on its competitor who does not have such a system. Our job is, therefore, obvious. We can begin by supporting and making more effective the program of the National Society for Business Budgeting during the next fiscal year.

Getting to the point, your editor is soliciting articles for publication in Technical Notes so that all members may benefit by the ideas and practices experienced by its members. If you do not have an article ready at the moment, certainly you must have a troublesome problem that you would like to have some constructive ideas on. Our question box committee is ready and willing to go to work on it to the best of their abilities.

An important factor in the maintaining of our free-enterprise system is the awareness of our social responsibility. If we neglect this important factor we could seriously jeopardize our American democracy; therefore, I believe it is fitting that a substantial part of this issue be devoted to a story on how a community chest operates. It is written by Lee Miller, Controller and Budget Secretary of the Community Welfare Council of Milwaukee. Lee is a member of the Milwaukee Chapter of the N.S.B.B.

Again, I wish to remind the members about sending in their articles and questions to the Editor of Technical Notes -- NOW!

For any questions relative to the National Society for Business Budgeting or Technical Notes, write to the Editor or any of the officers listed on the back page of this issue.

BUDGETING IN A COMMUNITY CHEST
Lee Miller, Controller and Budget Secretary
Community Welfare Council of Milwaukee

October - in most cities throughout America - is the month when you and I are solicited for our annual contribution to the local Community Chest. The Chest, we find, is very accommodating. It will welcome a contribution payable under a payroll deduction plan, a cash contribution, or a pledge payable in installments during the coming year.

Since we belong to that elite group called "executives," our local Chest has probably supplied the solicitor, who approaches us, with a "standard of giving guide" to help us determine our basis "for support." After the solicitor has left, we probably have thought, "This is a pretty well-organized operation."

Prior to January 1950, my attitude towards Community Chests and information about them was probably very much like your opinions - unless you have been active in "Chest Work" and have intimate knowledge about Chest functions, procedures, and purposes. I thought that the Chest was something that "I should contribute to" (something like the annual pledge to the church). I knew in a general way that the money raised through the Chest went to support various worth-while organizations in the community. I knew practically nothing about how the goal for the campaign was set but assumed that someone had studied the costs of operations. I knew nothing about the procedures for disbursing the funds collected.

Perhaps you have been active in Chest campaigns as a "volunteer solicitor" and have gotten an insight into "Chest Work" - more people know about Chests through this fund-raising operation than any of the other Chest activities. If you have been active in Chest work, your experiences have probably revealed that many people do not really understand "what the Chest is all about." I remember well, for example, a certain grocer whom I called on years ago for a pledge to the Chest. Because he had noticed a new Salvation Army truck pass his store, when I approached him for a contribution, he told me in no uncertain terms: "If the Salvation Army has enough money to buy a new truck, it doesn't need any of my money. My truck is five years old." The grocer's viewpoint certainly showed that he had a limited understanding of the Community Chest activity.

Conversations with friends in N.S.B.B. indicate that, although they contribute each year, many accept the Chest "on faith" as I did and do not give their support in either "time or money" because of a full understanding of Chest operations and purposes.

TECHNICAL NOTES AND COMMUNITY CHEST BUDGETING

"Budgeting in Community Chests" appears to be a timely subject for TECHNICAL NOTES; Chests have budget procedures that are fundamental in their operations and N.S.B.B. members have a personal interest in the Chest activities in their own communities. However, it is impossible to write, "This is the way budgeting is done in Community Chests." The simple truth is that the "Chest" in other cities differs somewhat from the "Chest" in your city, and the difference between the two Chests is not necessarily due to a difference in the size of the cities.

In spite of these differences, the budget problems are similar even though they may be handled in different ways by individual Chests.

Surely this statement sounds very familiar and like an application of the axiom

from good industrial budget practice; namely, the budget procedures should be designed to fit the problems and management methods of each individual company.

Therefore, the purpose of this article is four-fold:

- (1) To indicate what the Chest movement is.
- (2) To indicate how N.S.B.B. members can enjoy participation in Community Chests in their own cities.
- (3) To indicate the basic procedures being used in Community Chest budgeting.
- (4) To indicate unsolved problems in Community Chest budgeting.

THE CHEST MOVEMENT

The Chest movement is not new. Some say that it started in Denver in 1888 and others prefer to use the date of 1913 when the Cleveland Federation was formed. Under the first date, the movement is 65 years old; under the second date, the movement is 40 years old. It has been said that Community Chest movement is not valuable because it is old but is old because its value has been demonstrated and accepted. Remember always that Chests are local organizations, established and operated by local groups when the community recognizes the need for such an organization.

It is generally stated that the movement involves the joining of a group of agencies together to study the social welfare and health needs of a community (Social Planning for the Community) and organizing to raise money in one annual effort for the support of some (but not all) of the agencies that are associated together in the planning activity.

In some cities, these functions are carried on in one corporate organization. In cities where the functions are carried on by two distinct and separate corporate organizations, the planning function is likely to be known by such a name as "The Council of Social Agencies" and the fund-raising function is likely to be known as the "Community Chest." In Milwaukee, where the functions are combined, the central organization is known as the "Community Welfare Council" which operates the Community Chest campaign. (See Exhibit "A")

In 1952, there were more than 1,600 Chests (large and small) that raised over \$266,000,000 for the supported agencies. The activity in your Community is part of these totals. Although the sum raised is large, it should be remembered that these independent agencies no longer have large budgets for "direct relief." "Direct relief programs" (cash subsidies to individuals, for example) are now carried on chiefly by Departments of Public Welfare - governmental agencies.

The point frequently passed over in discussions of Community Chests is the basic fact that Chests exist because of and for agencies. Where there are no agencies, there are no Chests. The term "agency" is commonly used to designate the organizations that actually carry out the programs and give the services made possible by the Chest funds. Where the Boy Scouts, YMCA, orphanages, hospitals, etc. are subsidized by Chest funds, they are Chest agencies.

Each of the agencies - it should be remembered - is a nonprofit corporation with its own Board of Directors, General Manager (usually called the Executive Secretary), and its various Committees of management composed of interested citizens. In one sense, the agencies are autonomous. Yet, each agency surrenders some autonomy when it joins in a joint planning and financing venture such as a Chest.

Attempts have been made to draw parallels between industrial organizations and Chest setups. No exact parallel exists, although the industrial "Holding Company" resembles Chest relationship to agencies somewhat. Lacking, however, are the stock ownership and control of "subsidiaries" that exist under industrial "Holding Companies." And, some agencies would strongly object to the idea that they were subsidiaries of a Chest. In fact, there are some situations in which the agencies, or some individual agencies, consider themselves more important than the Chest. Nevertheless, agency policies and programs are influenced by Chest studies, conclusions, and policies; and, some of an agency's income (or nearly all of it in some cases) is obtained from the Chest. Therefore, some of the problems each city has to settle within its own family are:

- a. What are the agency prerogatives.
- b. What is the extent of an agency's autonomy.
- c. What is the extent of Chest control over agency operations when the agency joins in centralized planning because it is receiving a subsidy from the Chest. Moreover, it should not be forgotten that the Chest is in effect certifying an agency's program to the public.

The answers to these problems will have an effect upon the budget procedures followed in your city.

Continuing with a search for comparable industrial terminology, it seems that the usual industrial departments would be translated as follows:

<u>Production Department</u>	The agencies that actually give the service to the public - "the agency's clients."
<u>Sales Department</u>	The Campaign Department of the Chest that goes out and gets the money that makes the Production Departments possible.
<u>Engineering Department</u>	The "Social planning function" which actually is ultimately concerned with specifying the product the community is going to receive for the income obtained by the Sales Department.
<u>Financial & Budgetary Control</u>	The "how" and "why" the money is going to be spent.
<u>Public Relations</u>	The Sales Promotion function - using all sales promotion techniques.
<u>Research</u>	Usually closely related to the Engineering Department, although helpful to the Sales Department too.

So far, nothing has been said about the Chest method of getting things done, and nothing has been said about the function of the Chest staff.

The method of operation is the "Committee Method" with committees being composed of interested citizens. Certainly, the Committee Method is not one that promotes prompt action - it usually takes time to get a decision unless "Things are turned upside down for an emergency." On the other hand, the committee method is justified in Chest work as being the "democratic process" by which most, if not all, of the various viewpoints of the community are expressed and considered with operating procedures and objectives fair to all being developed. Certainly, an attempt is made to get "representative public viewpoints" into the Committee Work.

The Staff function is difficult to express in simple language. In an organization chart, members of a Chest staff have line responsibilities to the Chest Executive.

However, in relation to the Committee form of operation, they have several responsibilities, such as:

- a. Recruitment of committee members.
- b. Supplying technical information and assistance to the committees.
- c. Carrying out the directives of the committee recommendations as approved by the Chest Board of Directors.
- d. Acting as counsellors to the agencies in discussing specific problems.
- e. Performing the technical responsibilities of their job in an operating organization.

It should be noted that very seldom do staff members make "executive decisions" as do executives in industrial companies - the decision responsibility is primarily that of the citizens who are the corporate officers or the committee Chairmen. The language of the "trade" frequently refer to Chest staff as being a "resource" that aids the public in getting the job done for the community's benefit.

YOU AND YOUR COMMUNITY CHEST

Business literature today stresses the responsibility of the corporation to its community, and "business" today recognizes that it should be active in community affairs. Perhaps that is where you come in as a company representative in community enterprises. If so, you may assume that you should become active in budgeting since that is your specialty. Well, maybe so, However, you should not overlook that fact that a Budget Committee - from the Chest standpoint - should be representative. Chests want persons with an industrial budget background on their committees. Chests also want accountants, lawyers, doctors, sales managers, company presidents, school teachers, representatives of the social work field, government officials, and housewives on these committees too.

Don't forget that the planning activity may also be interesting to you because people with broad interests and analytical ability are wanted in this work too.

Another thing that you should not overlook - if you are public spirited - is that you may be just as helpful to your community if you are active in an agency as you would be if you were active in the Chest.

BUDGETING IN A COMMUNITY CHEST

An agency's budget in a Chest is normally for operating expenses - "capital costs" are not usually underwritten by a Chest. Your idea of capital costs may differ, however, from budget practice in a Chest. Hence, you will usually find a pretty well-defined basis for "inclusions and exclusions" of particular costs from the budget. If you get active in Chest budgeting, you may think the Chest should modify its practice in respect to particular items. Your ideas will be welcomed and consideration will be given to them.

Chests follow one of two general patterns in budgeting; usually called - (1) Post-Campaign Budgeting and (2) Pre-Campaign Budgeting. Under the post-campaign method, the agency submits general estimates on its income and expense with accompanying comments upon its objectives for the coming year. The Chest Board takes these factors into consideration in setting its goal for the campaign. The determina-

tion of an item by item budget and the amount which the Chest will make available to the agency is finalized after the Chest Campaign results are known.

Under the pre-campaign method, the agency submits a detailed budget proposal in which income and expense are indicated item by item. Comparisons with past experience and present budget are usually specified in the budget forms or procedures. This budget proposal is discussed with the agency and accepted or modified. The recommended allotment for each agency is considered by the Chest Board in establishing the Chest goal for the campaign. If the campaign is successful, the budget stands. If the campaign does not raise the total funds required, rebudgeting after the campaign is required of each agency. The procedure for rebudgeting may vary according to the particular situation and community practice. Seldom will you find an arbitrary percentage adjustment being practiced.

There is literature available on Community Chest budgeting from the Community Chests and Councils of America - the central "trade association" of the Chests. Each Chest, however, has developed its own "wrinkles" that differ from these published general guides.

The first fundamental to remember is that the budgeting is really done in the agency and that the agency budget comes to the Chest with the approval and endorsement of the agency's own Board of Directors who are also representative citizens. The Chest may make modifications in the proposals but there needs be sound reasons for any changes made.

The second fundamental is that Chest budgeting of agencies is really a review of proposed budgets. If you are on a Budget Committee, you are in the spot of the "Old Man" looking at what the departments want. So, you ask yourself, is the request justified and can we meet the cost proposed?

In small Chests, the Board may act as its own Budget Committee. In larger Chests, the budget reviews are conducted by Budget Committees or Budget Panels who sit down in meetings with agency representatives to discuss budget proposals and arrive at recommendations as to the amount that should be assigned to the agency from the Chest Campaign.

If you serve on a Budget Committee, you will quickly find that your Chest operates on one of the following methods or a combination of the following methods:

Deficit Financing - The situation in which an agency budgets by item its income from fees, endowment interest, and other income against its item by item expense. Since income does not equal expense, the Chest undertakes to raise the estimated deficit which will be referred to as the Chest allotment or Chest allocation to the agency.

Purchased Service - Usually found in connection with hospitals who supply a specific amount of "charitable service" for which the Chest pays on a unit basis.

Grants - A specific amount to an agency who then raise the remainder of its income needed to meet its costs.

You will find that your Chest usually has an independent audit made of the agency books - probably by a firm of public accountants. You will find too that the Chest usually has a standard Chart of Accounts which will be suitable for most of the agencies but may not be suitable for all of the agencies. You will encounter the problems you see daily but dressed up in different names. You will find a fair examination and explanation of "why" and "for what" the agency proposes to spend the funds that may be available to it.

UNSOLVED PROBLEMS IN COMMUNITY CHEST BUDGETING

Budgeting has been one of the foundation stones of Chest operations since the early days. However, there still are many unsolved problems.

Basically, the budget process is akin to appropriation budgeting or municipal budgeting. In other words, the budget is fixed and not a variable budget.

One of the unsolved problems is how do you turn a fixed budget into a variable one. The need of so doing, of course, depends upon the Cash Reserves of the Chest and the attitude of the Chest Board towards those reserves. There are usually procedures for "reopening a budget." Some Chests budget a special "Emergency Fund" to be distributed by the Chest Budget Committee as needed. Other Chests do not have "Emergency Funds" formally set up in the goal.

You may find that the techniques of forecasting agency income have not been mastered. You may find that "fees adjusted to ability to pay" go down in times of prosperity when you think that they should go up - here the income of the group served, living costs of the family, and variations in need for service have a bearing upon the agencies' income.

You will find that budgeting salary costs is a problem in a field that is known to have more jobs available or scheduled than there are qualified personnel to fill those jobs. Some Chests have adopted a technique known as the "Vacancy Allowance" in recognition of this fact - a method that recognizes that an agency will seldom have a "full staff." The principle assumes that the Chest will underwrite the cost if an agency is lucky enough to get the personnel it should have.

You may find that your Chest needs a Job Evaluation & Classification Study so that individual employees of various agencies are paid salaries comparable to the required skills, abilities, and responsibilities of the various jobs.

You may find that "property costs," such as insurance, rent, fuel, equipment, and repairs to buildings, warrant creation of a special budget committee of experts to review and study these costs which are distinct from "program costs."

Right now, one of the important problems facing Chests is that of "Priorities." Agencies may want to expand their programs or do new things. Which projects should be done first, and how many should be done in a given year? Is this a budget problem, or is it a planning problem? There is an old axiom to the effect that there is a lot of social planning in budgeting.

How do you determine whether the telephone, stationery, auto allowances, and publicity of Agency A are proper in respect to the proposals of Agency B? Can guides be worked out to help agencies determine whether particular expenses are too high or too low? Can standards be worked out for a variety of costs for the agencies in the Chest? How far can "cost per unit of service" (be it days of client care or some other unit) be developed to aid in budget preparation in respect to the "load" expected during the coming year?

This listing of the unsolved problems in the field of Community Chest budgeting is not complete. However, it certainly is indicative of the fact that, conscientious as the budgeting procedures of each Chest are, there is still room for perfection of budget techniques and budget review techniques.

WHERE YOU COME IN

You are probably just like everyone else in your community. Your personal problem is how much time can you devote to outside activities. Therefore, you are

COMMUNITY WELFARE COUNCIL

of Milwaukee County

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ONE REPRESENTATIVE FROM EACH OF
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COMMITTEE**

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COMMITTEE**

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RELATIONS
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COMMITTEE**

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COMMITTEE**

**ADVISORY
COMMITTEE**

**ADVISORY
COMMITTEE**



**BUDGET
COMMITTEE**



**CAMPAIN
CHAIR**

**CORPORATION
I**

**CORPORATION
II**

**INDIVIDUAL
GIFTS**

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**SOCIAL SERVICE
DIVISIONS**

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reluctant to take on anything additional. Nevertheless, don't forget these fundamental points:

1. If you want recognition in your home town, working in the Chest movement is a sure way to get it. Remember too that you will get to know many persons whom you would not meet otherwise.
2. If you let a Chest or agency person know that you are interested, they will find a job for you in accordance with your interests.
3. When the job is done, you will get real satisfaction from the experience.
4. In respect to Chest Budgeting, good as it may be in your home town, the final word has not been written on budgeting for Chests.

QUESTION: When a company has multiple plant operations, what should be done in the matter of operating expenses in order to:

1. Insure financial control over all funds expended?
2. Achieve and maintain operational control at all volume levels?
3. Accomplish these points by having accounting and budgeting groups serve a dual purpose rather than each duplicate the work of the other?
4. Assist management at all levels in the matter of evaluating performance, as well as highlighting the reasons for performance, whether good or bad, with the constant aim of improvement?

REPLY: It is assumed that the company is operating on a decentralized basis, except for the possibility that some of the accounting functions and probably most of the budgeting functions are centralized.

The subject of coordination (as reflected in questions one, two, and four) appears to be one which is troubling many in budget work at the present time. Coordination is a very important part of the complete budget program because many companies appear to emphasize the control aspects of budgeting (what should be done when expenditures are above budget), whereas they have not stressed the over-all benefits that are obtainable through better coordination of the various units in the business under a good budget system. The opportunities for improved coordination probably is more extensive in companies having multiple plants or multiple product lines than in companies operating single plants which produce a relatively small number of products.

The manner in which a Budget Department should conduct itself in order to be more effective in promoting better coordination probably will vary considerably from company to company depending upon:

1. Where the budget fits in the company's scheme of organization.
2. What authority and responsibility the Budget Department has.
3. The extent to which the Budget Department is expected to interpret and comment upon current operations.

Another variable is the manner in which the company goes about its preparation of the budget. If the budget is prepared by management and handed down through the organization, then the Budget Department is confronted with one type of situation. If the individual departments build up their own budgets (starting with consultation with the foremen, with the final budgeting being approved or modified by one person or a committee), the Budget Department is in a different situation in regard to coordination problems.

If the company has some group which meets frequently to set new policy and to evaluate old policy, it would appear that this policy group is the key to coordination and that the Budget Department probably should concentrate its work upon proving coordination by working through this committee.

When such a policy committee exists, the Budget Department's relation to this policy group probably should be one of commenting upon trends developing, the effect of current sales mix upon profits, and the effect of operating rates and actual expense within the division or plants upon profits. The Budget Department's comments to such a committee should be in respect to major problems and probably should be set up with available substantiating details to support the opinions, if such detailed information is desired or frequently requested by the committee.

In all likelihood, the Budget Department's comments upon operations should be in more detail when directed to an individual plant, division, or department than when directed to a major policy committee. However, comments may very wisely vary as to detail, depending upon whether the managers of these units are detail-minded.

The relationship between the Accounting Department and the Budgeting Department may, can, and does vary greatly between individual companies. In some organizations it is very difficult to distinguish between the group that does the accounting and the group that does the budgeting. In companies where there is a demarcation, it would seem to be a sound principle that neither department should duplicate the records of the other.

Whether the Budget Department should prepare the reports comparing actual performance and budget would seem to depend upon a company's internal organization. Frequently the Accounting Department is given the budget formulae, which the Accounting Department can easily use in preparing the budget for inclusion in the accounting reports. The flow of work seems to be smooth under this procedure.

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